ATCHISON
CONSULTANTS

SUPERANNUATION MARKET PLACE

Quarterly Review to 30 September 2020

December 2020

Level 3, 155 Queen Street, Melbourne Vic 3000
enquiries@atchison.com.au www.atchison.com.au
P: +61 (0) 3 9642 3835
F: +61 (0) 3 9642 8886

Special Feature: Retirement Income Review – Superannuation Guarantee

Whilst the recently released Retirement Income Review didn't produce any specific recommendations, it did propose and sound out future possibilities and the state of the current compulsory super scheme. Research conducted within the report demonstrates that the current Australian retirement income system is effective and sustainable. A big talking point from the review, and one which has been discussed at length is the proposed increase to super guarantee whereby under current rules, employers must pay 9.5% of their employees income into super, with legislated increases to 12% on 1 July 2025; the incremental increases can be see below.

Period	Super Guarantee Rate
1 July 2002 – 30 June 2013	9.00%
1 July 2013 – 30 June 2014	9.25%
1 July 2014 – 30 June 2021	9.50%
1 July 2021 – 30 June 2022	10.00%
1 July 2022 – 30 June 2023	10.50%
1 July 2023 – 30 June 2024	11.00%
1 July 2024 – 30 June 2025	11.50%
1 July 2025 – 30 June 2026 and onwards	12.00%

Source: ATO

An extract from the review concluded that, "more efficient use of savings in retirement can have a bigger impact on improving retirement income than increasing the superannuation guarantee (SG)''. These findings will no doubt have a major impact over the short term and also provide Scott Morrison and the current government evidence and support if they were to indeed, delay or perhaps scrap the proposed increase to the previously legislated super guarantee increases which were set to commence 1 July 2021.

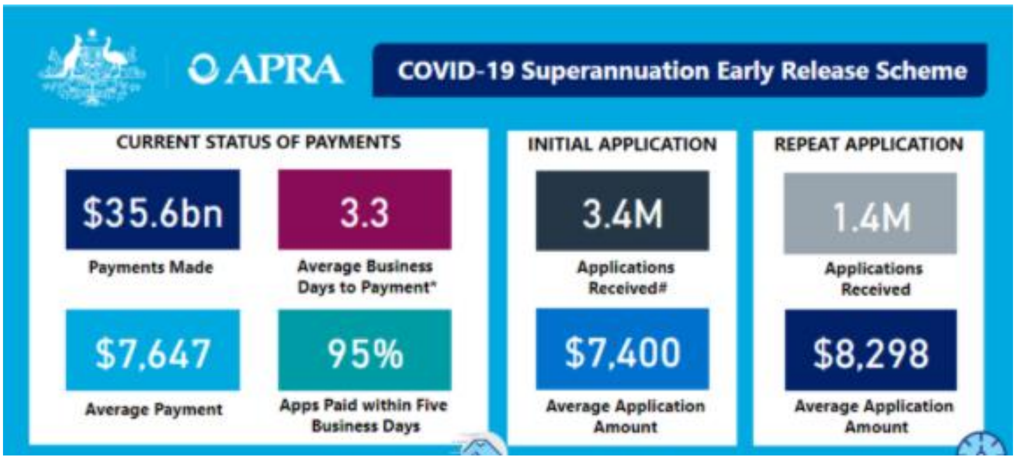
While the review does support the notion of compulsory super, noting that many workers would fall short in retirement without it, a key reminder is that with increases to the super guarantee comes the negative impact of lower income at the expense of growth in take home pay, with evidence suggesting that ''A rate of compulsory superannuation that would result in people having an increase in their living standards in retirement may involve an unacceptable reduction in living standards prior to retirement''. Add to this the economic impact to employment starting from last year's bushfires and this year's global pandemic, many individuals are currently suffering and if the guarantee were indeed to increase as proposed, what detriment or strain would this further put on individuals and what bigger deficit would the Australian economy look like.

Further, evidence suggests that increasing mandatory super would not actually benefit low- and middle-income earners, it would benefit the relatively rich, an incentive for receiving high tax concessions and contributing more to super.

It will be wait and see over the next six months to determine which approach the current Government will take and which findings from the review the Government will implement, whichever way they turn it will have a profound impact to each Australians retirement and future inflows into the Superannuation system.

Early Release Superannuation Scheme Update

Latest data released by APRA of the early release super scheme from inception to 6 December 2020 as per the dashboard below shows the current status of the scheme:



Source: APRA

- $35.6billion payments have been made
- On average, super funds are taking 3.3 business days to make payments
- The average payment amount is $7,647
- 95% of applications have been paid within five business days
- 3.4 million initial application have been received with the average application amount of $7,400
- 1.4 million repeat applications have been received with the average application amount of $8,298

Superannuation Market Place

Total Australian superannuation assets increased by 0.6% over the quarter to September 2020 to approximately $2.9 trillion (refer to Table 2). In terms of equity performance over the quarter, as shown in Table 1 below, growth assets with the exception of Australian Equities and International Listed Property ended the quarter in positive territory.

Table 1: Quarterly Equity Performance – 30 September 2020

Asset Class	Index	Quarterly Return (%)
Australian Equities	S&P/ASX 200 TR	-0.4
International Equities	MSCI World Ex Australia TR (AUD)	3.9
International Equities (Hedged)	MSCI World Ex Australia (hedged to AUD)	6.4
Australian Listed Property	S&P/ASX 200 A-REIT TR (AUD)	7.0
International Listed Property	FTSE EPRA/NAREIT Developed TR (AUD)	-1.7

Source: S&P, MSCI, FTSE, FE

The composition, in terms of fund types, is as follows:

Table 2: Assets by Fund Type – 30 September 2020

Type	Assets ($ Billion)	Assets (%)
APRA-Regulated		
Corporate	57.6	2.0
Industry	761.0	26.3
Public Sector	535.5	18.5
Retail	597.7	20.7
Other	1.9	0.1
Total APRA-Regulated	1953.7	67.6
Self-Managed Super Funds	728.2	25.2
Other	209.3	7.2
Total	**2891.2**	**100.0**

Source: APRA, Atchison Consultants

Australian superannuation total assets decreased 1.6% over the one year period to September 2020, significant falls over the March 2020 quarter due to COVID-19 and the Early Release Superannuation Scheme that commenced on 20 April once again contributed to the decrease. According to APRA, contributions into superannuation decreased over the September 2020 quarter by 20.6%, with total contributions also decreasing 2.8% compared to the September 2019 quarter.

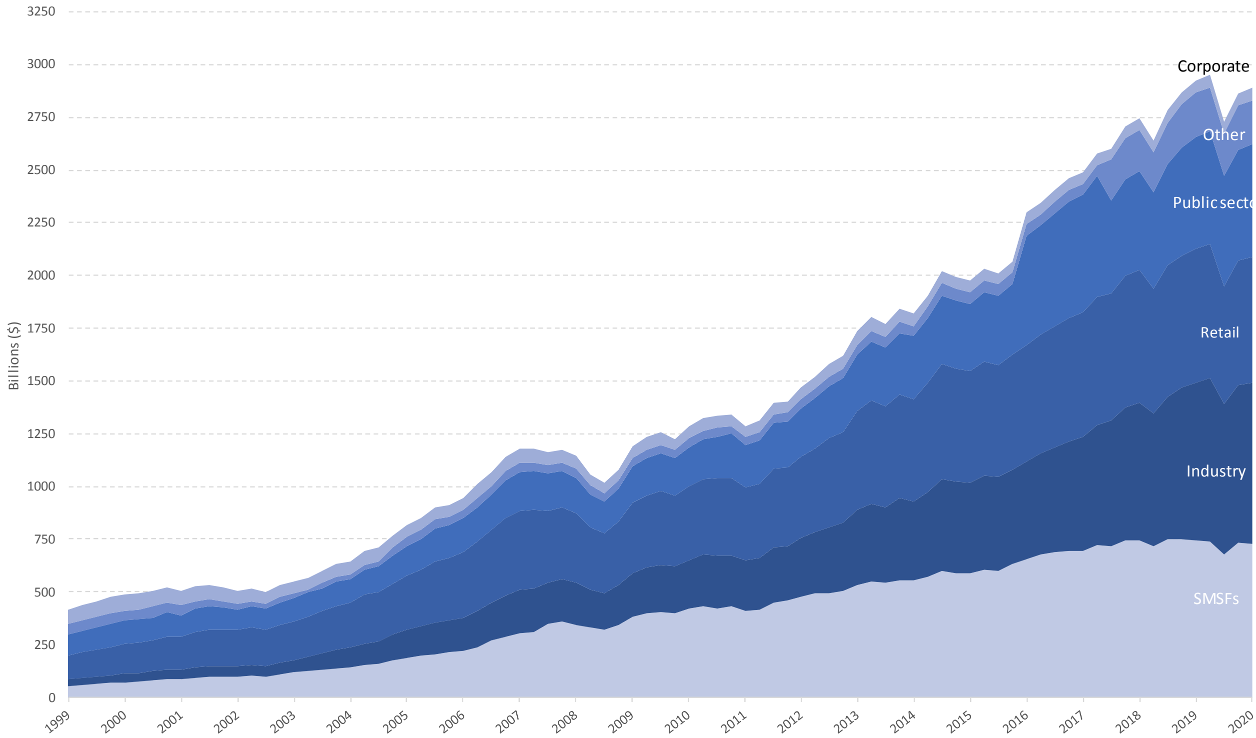
On a forecast basis, over the coming 10 years, total super assets are expected to grow to $4.9 trillion in 2030.

Superannuation Industry Sectors

At September 2020, industry funds held the largest proportion of superannuation assets, accounting for 26.3% of total assets, self-managed funds closely followed with 25.2% of total superannuation assets. Retail funds held the third largest portion, representing 20.7%.

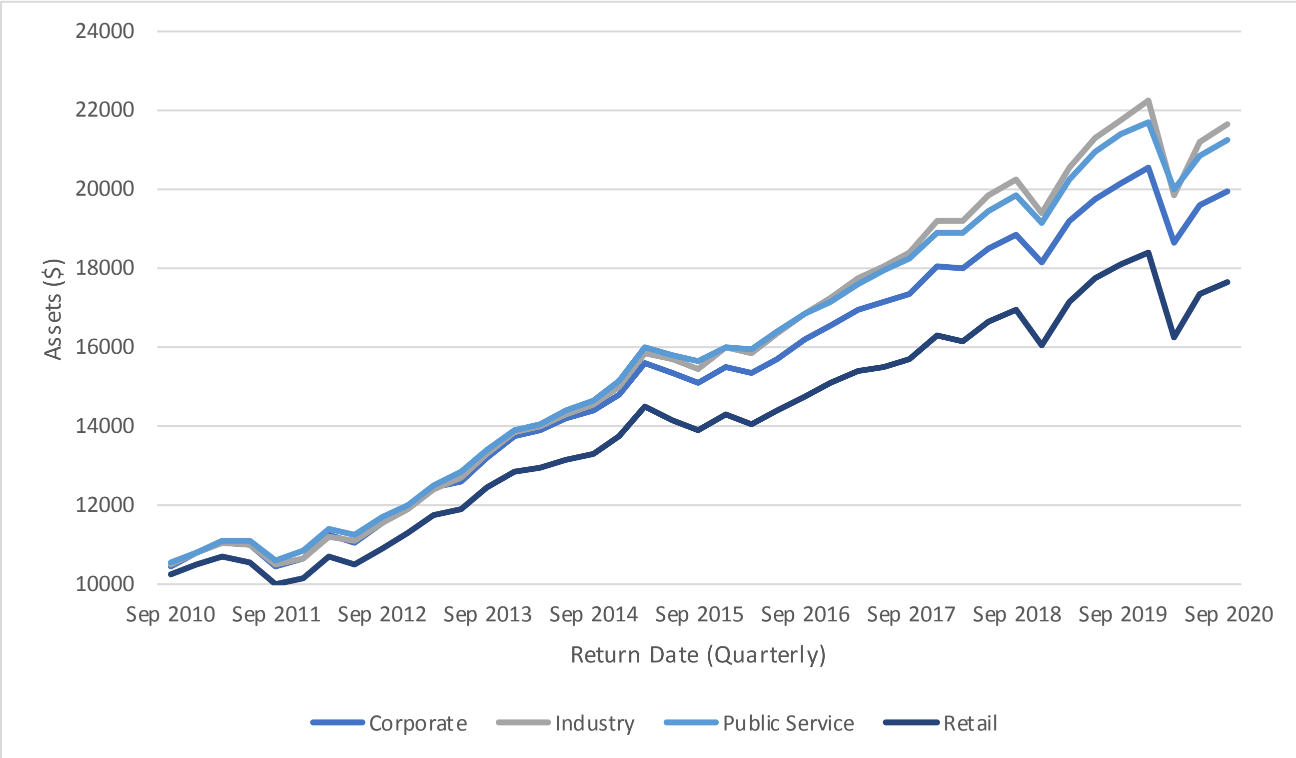
Superannuation assets by segment with the exception of SMSFs, were able to continue on from the June 2020 increase and once again increase total assets, as evident in the below Figure. Figure 1 also provides a breakdown of the superannuation industry over time.

Figure 1: Superannuation Assets by Segment – 30 September 2020



Source: APRA, Atchison Consultants

Figure 2: Growth of $10,000 over 10 years based on quarterly rate of returns – 30 September 2020



Source: APRA, Atchison Consultants

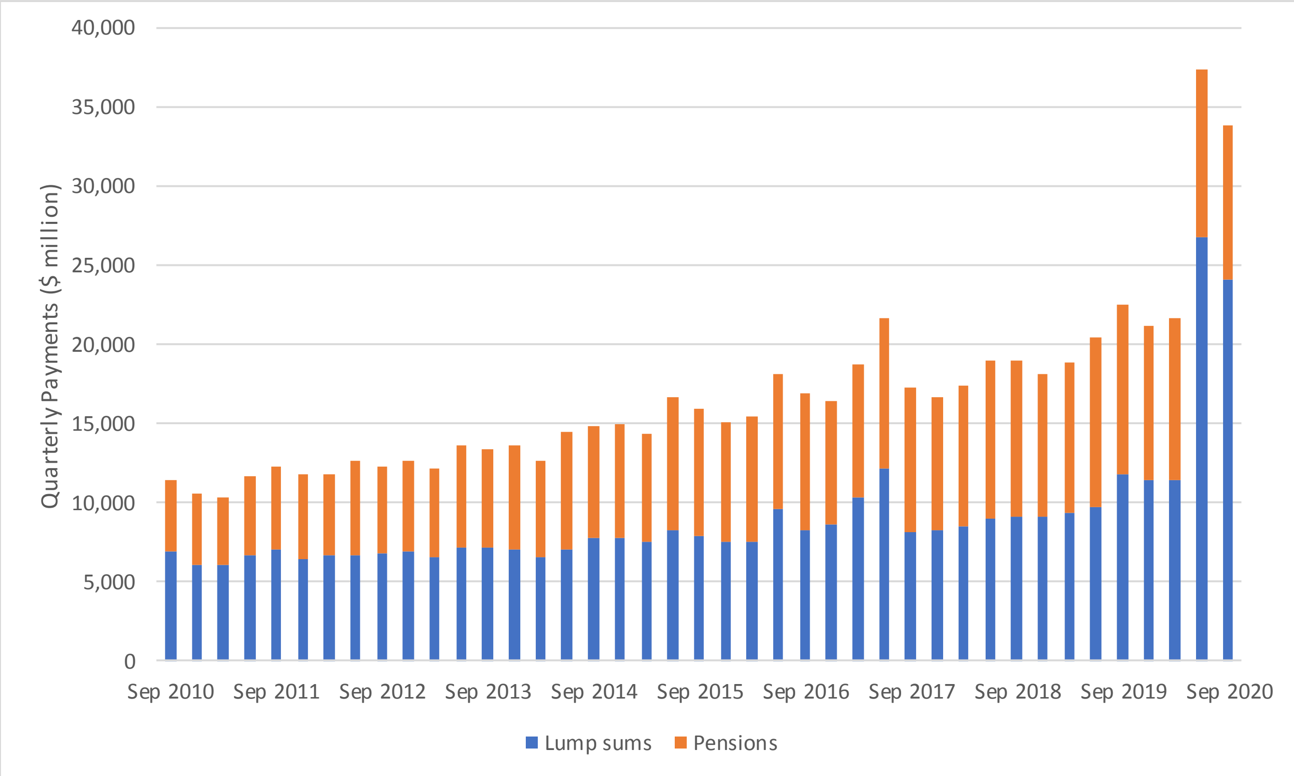
The performance of each fund type has stayed relatively similar over time, with members of all funds seeing strong growth in assets, with the exception over the March 2020 quarter due to the COVID – 19 pandemic, with performance declining significantly. Performance over the more recent September 2020 quarter as shown in Figure 2, continued on from the June 2020 rebound, recovering some of the losses experienced from the March 2020 quarter. The Figure also shows the rate of return over the last 10 years, where industry and public sector funds have produced stronger returns over the 10 year period relative to retail and corporate funds. This reflects member sentiment but also the difficulty retail funds have faced over the last 10 years in gaining and returning to members when competing against not for profit funds.

Asset Flows

Contributions to APRA regulated superannuation (excluding self-managed funds) amounted to $27.7 billion in the September 2020 quarter, a 2.8% decrease from the September 2019 quarter.

As shown in Figure 3, $33.9 billion was paid in benefit payments in the September 2020 quarter, an increase of 50.7% from the September 2019 quarter, reflecting the impact of the COVID related early release program. Total benefit payments for the year ending September 2020 were $114.2 billion.

Figure 3: Benefit payments – 30 September 2020



Source: APRA, Atchison Consultants

Asset Allocations

As shown in Table 3 below, superannuation entities reduced their exposure to International Fixed Income and Australian listed equity, by 0.8% and 1.4% respectively, while the largest increases over the one year period to 30 September 2020 included Cash and International Listed Equity, with increases of 2.3% and 0.3% respectively.

Table 3: Average Asset Allocation – 30 September 2020

Type	Sept 2019 (%)	Sept 2020 (%)
Cash	9.6	11.9
Fixed Income		
Australian Fixed Income	12.5	12.3
International Fixed Income	9.4	8.6
of which: currency Hedged	59.0	60.3
Total Fixed income	21.9	20.9
Equity		
Australian Listed Equity	22.2	20.8
International Listed Equity	24.5	24.8
of which: currency Hedged	30.9	29.6
Unlisted Equity	4.1	4.2
Total Equity	50.9	49.9
Property		
Listed Property	3.2	2.7
Unlisted Property	5.4	5.4
Total Property	8.6	8.2
Infrastructure		
Listed Infrastructure	1.5	1.4
Australian Unlisted Infrastructure	2.6	2.7
International Unlisted Infrastructure	1.6	1.9
of which: currency Hedged	57.2	58.1
Total Infrastructure	5.6	6.0
Commodities	0.1	0.1
Other	3.3	2.9
of which: Hedge funds	1.6	1.2
Total	**100.0**	**100.0**

Source: APRA, Atchison Consultants

Table 4 shows the weighted asset allocation for not-for-profit funds (industry and government superannuation funds), retail funds and mySuper funds.

Table 4: Superannuation Fund Asset Allocation – 30 September 2020

Type	Corporate (%)	Industry (%)	Public Sector (%)	Retail (%)	MySuper (%)
Growth Assets					
Equity	43.2	50.9	44.4	53.8	54.9
Property	9.8	9.0	8.7	6.5	9.2
Infrastructure	5.0	9.7	5.4	2.1	8.5
Other	2.0	1.6	3.8	3.9	2.6
Total Growth Assets	60.0	71.2	62.3	66.3	75.2
Defensive Assets					
Cash	8.7	10.7	12.8	12.9	5.0
Fixed Income	30.1	18.0	24.8	20.6	19.6
Commodities	1.1	0.0	0.2	0.2	0.1
Total Defensive Assets	39.9	28.7	37.8	33.7	24.7
Total	**100**	**100**	**100**	**100**	**100**

Source: APRA, Atchison Consultants

MySuper and industry funds represented the highest allocations to growth assets, relative to the other sectors, 75.2% and 71.2% respectively, while corporate funds represented the lowest allocation, 60.0%. In noting the above, MySuper funds held the highest allocation to equities, closely followed by retail funds, representing 54.9% and 53.8% respectively of the allocation. The largest allocations to property and infrastructure assets were industry and MySuper funds.

For further information please contact:

Kevin Toohey – Principal
Robert Lauria - Investment Analyst